

Audit

Report



DEFENSE FINANCE AND ACCOUNTING SERVICE
DENVER CENTER'S ACCOUNTING ENTRIES
USED IN COMPILING THE FY 1999 AIR FORCE
GENERAL FUND FINANCIAL STATEMENTS

Report No. D-2000-143

June 9, 2000

Office of the Inspector General
Department of Defense

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Acronyms

CFO	Chief Financial Officers
DFAS	Defense Finance and Accounting Service
DOLARS	Departmental On-Line Accounting and Reporting System
IG	Inspector General



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2885

June 9, 2000

**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE DENVER CENTER**

**SUBJECT: Audit Report on Defense Finance and Accounting Service Denver Center's
Accounting Entries Used in Compiling the FY 1999 Air Force General
Fund Financial Statements (Report No. D-2000-143)**

We are providing this report for review and comment. We conducted the audit in response to Public Law 101-576, the Chief Financial Officers Act of 1990, as amended by Public Law 103-356, the Federal Financial Management Act of 1994.

The Director, Defense Finance and Accounting Service Denver Center, did not comment on a draft of this report. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Director, Defense Finance and Accounting Service Denver Center, provide comments on this report by July 10, 2000.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Brian M. Flynn at (703) 604-9489 (DSN 664-9489) (bflynn@dodig.osd.mil) or Mr. Byron B. Harbert at (303) 676-7405 (DSN 926-7405) (bharbert@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the printed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2000-143

(Project No. D2000FD-0048.001)

June 9, 2000

Defense Finance and Accounting Service Denver Center's Accounting Entries Used in Compiling the FY 1999 Air Force General Fund Financial Statements

Executive Summary

Introduction. Public Law 101-576, the Chief Financial Officers Act of 1990, November 15, 1990, as amended by Public Law 103-356, the Federal Financial Management Act of 1994, October 13, 1994, requires DoD to submit to the Office of Management and Budget annual financial statements that have been audited by the Inspector General, DoD. This is the second of two reports on the FY 1999 Air Force General Fund financial statements. The first report was Report No. D-2000-084, "Inspector General, DoD, Oversight of the Air Force Audit Agency Audit of the FY 1999 Air Force General Fund Financial Statements," February 14, 2000.

Objectives. The original objective of the audit was to determine whether the Defense Finance and Accounting Service Denver Center, Denver, Colorado, consistently and accurately compiled data from field activities and other sources for the FY 1999 Air Force General Fund financial statements. However, we limited our review to an examination of the accounting entries made by the DFAS Denver Center in the Chief Financial Officers Reporting System. We also reviewed internal controls and compliance with laws and regulations related to those accounting entries. These objectives were previously announced under Project No. OFD-2111. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program and for Internet addresses of prior audits.

Results. The Defense Finance and Accounting Service Denver Center made \$1.2 trillion of accounting entries of which \$66.6 billion were not fully supported and \$20.2 billion were not properly approved. These conditions represent a material management control weakness that could affect the accuracy of the Air Force financial statements and accounting records. For details of the audit results, see the Finding section of the report. See Appendix A for details on the management control program as it relates to controls over accounting entries.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service Denver Center, fully implement the provisions of applicable directives for accounting entries by providing adequate supporting documentation, researching and reconciling differences between two or more sources, and obtaining approval by the appropriate authority.

Management Comments. The Director, Defense Finance and Accounting Service Denver Center, did not comment on the draft report. Therefore, we request that the Director, Defense Finance and Accounting Service Denver Center, provide comments on the final report by July 10, 2000.

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Background

Public Law 101-576, the Chief Financial Officers Act of 1990 (the CFO Act), as amended by the Federal Financial Management Act of 1994, requires the Inspector General (IG), DoD, or an independent auditor appointed by the IG, DoD, to audit the financial statements of DoD reporting entities. We delegated the audit of the FY 1999 Air Force General Fund consolidated financial statements to the Air Force Audit Agency. The Defense Finance and Accounting Service (DFAS) Denver Center, Denver, Colorado, maintains records for the Department of the Air Force and prepared the FY 1999 Air Force General Fund financial statements from data submitted by the Air Force and other DoD organizations.

The DFAS Denver Center provides accounting services and prepares financial statements for the Air Force General Fund. The components of the Air Force General Fund submit accounting data to the DFAS Denver Center for preparation of the financial statements and other reporting. The FY 1999 Air Force General Fund financial statements reported total assets of \$86.9 billion and a total net cost of operations of \$91.3 billion.

Most accounting data used to compile the Air Force General Fund financial statements comes from transfers of budgetary data from Air Force bases, Air Force major commands, and DFAS Operating Locations. The DFAS Denver Center uses the Departmental On-Line Accounting and Reporting System (DOLARS) to consolidate these data and prepare Air Force-level budgetary reports. DOLARS uses budget identifier codes, rather than a standard general ledger account structure, to record financial activity.

Before the Air Force General Fund financial statements are prepared, an automated interface transfers budgetary data from the DOLARS to the Chief Financial Officers (CFO) Reporting System. The budgetary data from the DOLARS are run against a table of posting rules, which converts the budget identifier codes to double-entry accounting transactions. The CFO Reporting System uses these transactions to populate the proprietary and budgetary general ledger accounts.

Additional data come from sources that do not interface with the CFO Reporting System. These sources include property management systems, logistics systems, reports from other DFAS Centers, reports from Air Force financial management and legal activities, and reports from other Government entities.

In preparing the FY 1999 Air Force General Fund financial statements, the DFAS Denver Center processed 452 accounting entries valued at more than \$1.2 trillion in the CFO Reporting System.

Objectives

The original objective of the audit was to determine whether the Defense Finance and Accounting Service Denver Center, Denver, Colorado, consistently and accurately compiled data from field activities and other sources for the FY 1999 Air Force General Fund financial statements. However, we limited our review to examining the accounting entries made by the DFAS Denver Center in the CFO Reporting System. We also reviewed internal controls and compliance with laws and regulations related to those accounting entries. We reviewed the adequacy of the management control program as it applied to the audit objectives. See Appendix A for a discussion of the scope and methodology and the results of our review of the management control program.

Accounting Entries

The DFAS Denver Center made \$1.2 trillion of accounting entries, of which \$66.6 billion were not fully supported and \$20.2 billion were not properly approved. These conditions occurred because:

- supporting documentation was incomplete, missing, or did not support the amount of the accounting entry,
- the accounting entries violated generally accepted accounting principles, and
- DFAS Denver Center personnel did not always obtain the appropriate level of review for the accounting entries.

These conditions represent a material management control weakness that affect the accuracy of the Air Force financial statements and accounting records.

Guidance on Financial Reporting

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, "Reporting Policy and Procedures," February 1996, with changes through January 1998, provides guidance on the roles and responsibilities of DFAS and its customers regarding financial reports and the treatment of transactions from which the financial data in the reports are derived. This guidance requires DFAS to adequately support, and justify in writing, any adjustments to official accounting records and states that:

The documentation shall include the rationale and justification for the adjustment, the detail numbers and dollar amounts of errors or conditions that are related to the transactions or records that are proposed for adjustment, the date of the adjustment, and the name and position of the individual approving the adjustment. The documentation also shall be sufficient to provide an audit trail to the detail transaction(s) being adjusted or corrected.

The DFAS Denver Center uses journal vouchers to document the nature of and approval for accounting entries made by accountants to data in the CFO Reporting System. Automated controls in the CFO Reporting System prevent unapproved journal vouchers from affecting the general ledger. A journal voucher is not posted to the general ledger until it is approved by either the Air Force General Fund Team Chief or the Chief, Office of CFO Procedures and Reporting. When the journal voucher has been approved, it is posted to the CFO Reporting System general ledger.

On October 28, 1999, the Director for Accounting, DFAS, issued a memorandum, "Journal Voucher Guidance," establishing guidance for the preparation and supervisory review of journal vouchers.

The memorandum required the following supporting documentation for journal vouchers prepared to correct errors identified during preparation and review of financial reports:

Identified errors and reasonableness checks. When the proper authoritative source has determined through analysis, reasonableness checks, or quality control procedures that the source data provided cannot be justified, a correcting journal voucher must be prepared. Evidence to support this type of journal voucher includes a detailed listing of the errors identified, related analysis documenting the correct amount, and when available, supporting documentation from the source of the data. In addition, the journal voucher must document why the error occurred and how the proper authoritative source determined that the entries included on the journal voucher are correct.

Certified balance that disagrees with the statement balance. When the proper authoritative source has determined that there is a discrepancy in data between two or more sources, a correcting journal voucher must be prepared. Evidence to support this type of journal voucher includes source data documentation and related analysis documenting the correct amount. In addition, the journal voucher must document why there was a discrepancy in the source data amounts and how the proper authoritative source determined that the entries included on the journal voucher are correct.

The memorandum also established thresholds for approval of journal vouchers, as shown in Table 1.

Table 1. Approval Thresholds for Journal Vouchers		
<u>Threshold</u>	<u>Dollar Amount</u>	<u>Approving Official</u>
1	Less than \$100 Million	Team Chief, General Funds
2	\$100 – \$500 Million	Chief, Office of CFO Procedures
3	\$500 - \$1 Billion	Deputy Director for Accounting
4	More than \$1 Billion	DFAS Center Director

The memorandum also required that before submission of each version of the financial statements, the DFAS Center's Director for Accounting shall review all journal vouchers to determine whether approval thresholds were met, and if not, to obtain approvals; and the DFAS Center's Director for Accounting shall review all reversing journal vouchers to determine whether they are correctly prepared, documented, reviewed, processed, and approved.

Categories of Accounting Entries

During FY 1999, the DFAS Denver Center made 452 accounting entries totaling \$1.2 trillion. These accounting entries were related to 12 different

categories. Many accounting entries were required because feeder systems did not provide the data needed. Table 2 shows the categories of accounting entries, the number of accounting entries made for each category, and the total dollar amount for each category.

Table 2. Accounting Entries		
<u>Category of Accounting Entry</u>	<u>Number of Accounting Entries</u>	<u>Amount (in billions)</u>
Posting of budgetary data	27	\$ 313.7
Reversal of budgetary data	27	313.7
Correcting errors in posting logic	32	110.5
Reversal of prior year accounting entries	33	172.7
Reversal of current year accounting entries	23	29.5
Prior period adjustments	13	25.0
Reallocation	73	3.7
Correct status of funds	6	.1
Posting off-line data	50	40.6
Depreciation	11	.9
Reclassification	104	202.0
Other	53	10.4
Total	452	\$1,222.8

Posting of Budgetary General Ledger Accounts. Before September 1999, the CFO Reporting System did not automatically post transactions to the budgetary general ledger accounts. This limitation required that accounting entries be prepared to input data from the SF 133, Report on Budget Execution, into the budgetary general ledger accounts. The CFO Reporting System automatically prepared these accounting entries based on amounts in the Reports on Budget Execution. In FY 1999, the CFO Reporting System automatically prepared 27 accounting entries, totaling \$313.7 billion, to post accounting data to the budgetary general ledger accounts. These accounting entries were prepared to allow the DFAS Denver Center to produce interim financial statements for the Air Force General Fund. These entries were reversed in September 1999 to remove the effect of the original entries from the accounting records. As a result, these entries did not affect the FY 1999 Air Force General Fund accounting records.

In September 1999, the CFO Reporting System's posting rules were updated to automatically post the accounting data to the budgetary general ledger accounts, eliminating the need for accounting entries to input the data into the general ledger.

Correcting Errors in Posting Logic. Because of errors in the logic used to convert some budget identifier codes to double-entry accounting transactions in the CFO Reporting System, data were posted incorrectly, and the DFAS Denver Center had to make adjusting accounting entries to change amounts posted by the automatic interface to the correct account.

To correct posting errors, the DFAS Denver Center prepared 32 adjusting accounting entries in the CFO Reporting System, totaling \$110.5 billion. Reprogramming the CFO Reporting System to correct these errors would eliminate the need for these adjusting accounting entries and reduce the risk of misstatement.

Reversals of Prior Year Accounting Entries. To reverse accounting entries prepared in FY 1998, the DFAS Denver Center prepared 33 accounting entries in the CFO Reporting System, totaling \$172.7 billion. These reversals were made to remove the effects of prior year adjustments from the current year's accounting records. Of the 33 accounting entries, 24 reversed FY 1998 accounting entries that reallocated undistributed collections and disbursements among Government and public accounts receivable and accounts payable; 4 reversed FY 1998 accounting entries that inputted off-line data; 4 reversed FY 1998 accounting entries that eliminated intra-Governmental transactions; and 1 reversed an entry to correct detail data in DOLARS.

Reversals of Current Year Accounting Entries. To reverse previous FY 1999 accounting entries, the DFAS Denver Center prepared 23 accounting entries in the CFO Reporting System, totaling \$29.5 billion. Of these 23 entries, 17 reversed reclassification entries, 3 reversed the effects of duplicate entries, 1 reversed a midyear adjustment, 1 revised the property, plant, and equipment amount, and 1 reversed entries previously made to correct errors in posting logic in the CFO Reporting System. These errors were subsequently corrected, and the original accounting entries were no longer required.

Prior Period Adjustments. Prior period adjustments are entries made directly to equity to correct errors in prior accounting periods. The DFAS Denver Center prepared 13 prior period adjustment accounting entries in the CFO Reporting System, totaling \$25 billion. All of the accounting entries were prepared to adjust accounts associated with physical assets and capital leases. Two of the adjustments recorded changes to fixed assets that were attributable to prior period activity, but were reported to the DFAS Denver Center in the current period; seven recognized depreciation expense in the proper period; and four recognized inventory gains and losses in the proper period.

Reallocations. The DFAS Denver Center prepared 73 accounting entries in the CFO Reporting System, totaling \$3.7 billion, to reallocate undistributed collections, undistributed disbursements, and sales transactions among general ledger subaccounts. These reallocation entries were required because some data submitted to the DFAS Denver Center did not identify the entity with which the transaction was made. The reallocation entries prorated the total amount of transactions with unidentified parties among Government and public customers and suppliers of the Air Force General Fund, based on the ratio of transactions in which the entities were identified.

Correcting Status of Funds. The DFAS Denver Center prepared six accounting entries in the CFO Reporting System, totaling \$73.3 million to correct data extracted from the Status of Funds System.

Data extracted from the Status of Funds System did not include all adjusting accounting entries made by the DFAS Denver Center. As a result, data extracted from the Status of Funds System were not accurate, which required the DFAS Denver Center to make accounting entries to correct the data from the Status of Funds System.

Posting Off-Line Data. The DFAS Denver Center prepared 50 accounting entries for \$40.6 billion to post accounting data that did not flow through the automated systems. These data were provided to the DFAS Denver Center from a variety of sources, including the Assistant Secretary of the Air Force (Financial Management), the Office of Personnel Management, other DoD entities, and the Air Force Legal Services Activity. As a result, the DFAS Denver Center was required to prepare accounting entries in the CFO Reporting System to ensure that the data were included in the financial statements

Depreciation. DoD Regulation 7000.14-R requires DoD to depreciate capitalized assets. Depreciation recognizes the allocation of the cost or value of property, plant, and equipment as an operating expense over the periods in which the assets are expected to provide benefits. Depreciation is computed over an asset's estimated useful life using the capitalized amount (cost or value) of an asset minus its residual value. Residual value is the estimated amount that is expected to be recovered from the asset's disposal. Depreciation is recorded in an accounting entry at the end of each reporting period.

An asset leased under terms that are equivalent to an installment purchase is called a capital lease. A capital lease is a lease contract that transfers substantially all the risks and benefits of ownership in the leased asset from the lessor to the lessee. Like most capital assets, depreciation expense is recognized on a capital lease. Capital leases may be depreciated over the lease term or the economic life of the asset.

Land improvements are depreciable assets; however, for accounting purposes, land is not subject to depreciation.

The DFAS Denver Center prepared 11 accounting entries in the CFO Reporting System, totaling \$925.4 million, to record depreciation for FY 1999. These accounting entries included three adjustments for land improvements, four adjustments for buildings, two adjustments for structures and facilities, and one adjustment each for military equipment and capital lease accounts.

Reclassifications. The Denver DFAS Center prepared 104 accounting entries in the CFO Reporting System, totaling \$202 billion, to reclassify transactions recorded during FYs 1998 and 1999. Reclassification adjustments are prepared to correct posting errors. DFAS Denver Center gave the following reasons for preparing reclassifications:

- to assign a sales code or to assign or match a trading partner for elimination purposes,
- to correct posting errors,
- to force account balances to agree with data from DOLARS, and
- for presentation on the financial statements.

Of the 104 accounting entries prepared for reclassification, 55 were prepared for elimination purposes, 34 were prepared to correct posting errors, 10 were prepared to force balances to agree with DOLARS, and 5 were prepared to reclassify accounts for presentation on the financial statements.

Integrating Air Force accounting information systems would reduce the number of journal vouchers required to properly classify data.

Supporting Documentation

Most of the accounting entries prepared by the DFAS Denver Center for the CFO Reporting System were adequately supported and accurately described the purpose of the entry. However, 89 accounting entries, totaling \$66.6 billion, were not fully supported.

Table 3 shows the categories of the accounting entries that were not fully supported, the number of accounting entries made for each category, and the total dollar amount for each category.

Table 3. Supporting Documentation		
<u>Category of Accounting Entry</u>	<u>Number of Accounting Entries</u>	<u>Amount (in billions)</u>
Incomplete documentation	72	\$ 55.7
Documentation did not support entry	15	10.6
Entry violated generally accepted accounting principles	<u>2</u>	<u>.3</u>
Total	89	\$66.6

Incomplete Documentation. Documentation was incomplete and did not fully support the reasons for 72 accounting entries, totaling \$55.6 billion, made by the DFAS Denver Center. Examples follow.

The DFAS Denver Center prepared six accounting entries totaling \$7.8 billion to adjust buyer's side data to match seller's side data. These I

adjustments were made in accordance with DFAS policy; however, the supporting documentation did not explain the discrepancy between the buyer's side and seller's side records.

The DFAS Denver Center prepared an accounting entry for \$36.6 billion to adjust the equity accounts to match what was reported on the Statement of Budgetary Resources. The supporting documentation did not explain the discrepancy between the amount reported on the Statement of Budgetary Resources and the accounting records.

The supporting documentation for 10 accounting entries totaling \$5.8 billion, prepared to revise accounting data received from field activities, did not state what additional data were received from the field activities and how they differed from the data originally submitted.

Documentation for Accounting Entries. Supporting documentation was present but did not support 15 accounting entries totaling \$10.6 billion. Examples follow.

The DFAS Denver Center prepared two accounting entries totaling \$6.3 billion with documentation supporting an entry that was the opposite of the entry that was made. The two entries debited accounts that should have been credited and credited accounts that should have been debited.

The DFAS Denver Center prepared an entry for \$2.6 billion to correct a misclassification of Operating Materials and Supplies. The supporting documentation stated that the entry was prepared to move an amount originally posted to Operating Materials and Supplies Held for Use to Operating Materials and Supplies – Excess, Obsolete, and Beyond Repair. However, the entry did not correct the misclassification; instead, it reversed the original entry without reclassifying the amount.

Generally Accepted Accounting Principles. The DFAS Denver Center prepared two accounting entries totaling \$346.7 million that violated generally accepted accounting principles. The two entries were prepared to reverse entries made in the previous fiscal year. One component of each of the entries prepared in FY 1998 was an increase to an expense account. At the end of FY 1998, the expense accounts were closed to equity, resulting in a decrease to equity. Each reversing entry incorrectly included a reduction to expense accounts. Because the expense accounts were closed to equity at the end of FY 1998, the correct reversing entry would have included a transaction increasing equity, rather than a transaction decreasing expenses.

Supervisory Review

The DFAS Denver Center did not obtain the proper level of supervisory approval for five accounting entries valued at \$20.2 billion. Each of these entries was approved, but not at the supervisory level established by DFAS headquarters. Four accounting entries of more than \$1 billion each were not

approved by the Director, DFAS Center, and an accounting entry between \$500 million and \$1 billion was not approved by the Deputy Director for Accounting.

DFAS Denver Center officials believed that they had the final authority to change previously approved accounting entries by transferring amounts among subaccounts of the same general ledger account.

Summary

Accounting entries are needed to input data not provided by automated systems, to post and reverse closing entries, to make prior period adjustments, and to correct errors. The DFAS Denver Center did not always fully support or clearly explain accounting entries. In addition, DFAS Denver Center personnel did not always obtain the appropriate level of approval for accounting entries. The guidance for accounting entries is clear, appropriate, and needs to be fully implemented by the DFAS Denver Center.

Recommendations

We recommend that the Director, Defense Finance and Accounting Service Denver Center, fully implement, for accounting entries, the applicable provisions of DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, "Reporting Policy and Procedures," January 1998, and the memorandum issued by the Director for Accounting, Defense Finance and Accounting Service, "Journal Voucher Guidance," October 28, 1999, by:

1. Providing adequate explanation and supporting documentation for all accounting entries.
2. Researching and reconciling differences between two or more sources and providing documentation that includes the reasons for the differences and verification that the entries are correct.
3. Obtaining approval of all accounting entries by the appropriate authority.

Management Comments Required

The Director, Defense Finance and Accounting Service Denver Center, did not comment on a draft of this report. Therefore, we request that the Director, Defense Finance and Accounting Service Denver Center, provide comments on the final report by August 15, 2000.

Appendix A. Audit Process

Scope

Work Performed. We reviewed support for 452 accounting entries totaling \$1.2 trillion that the DFAS Denver Center made to Air Force General Fund accounting records for FY 1999 in the CFO Reporting System. We also reviewed these adjustments to determine whether they were properly approved.

DoD-Wide Corporate-Level Government Performance and Results Act (GPRA) Coverage. In response to the GPRA, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures:

- **FY 2001 Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**
- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**
- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and financial systems. **(01-DoD-2.5.1)**
- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

- **Financial Management Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

Methodology

Use of Computer-Processed Data. We relied on computer-processed data from the CFO Reporting System, which processes accounting data for the Air Force General Fund. We did not evaluate the general and application controls of the CFO Reporting System because the process for preparing and approving accounting entries at the DFAS Denver Center is primarily a manual process. Not evaluating the controls did not affect the results of the audit.

Audit Type, Dates, and Standards. We performed this financial-related audit from October 1999 through February 2000 in accordance with audit standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within the DoD. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40 "Management Control (MC) Program Procedures," require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of the DFAS Denver Center's management controls over approval of and support for accounting adjustments. We also reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses as defined in DoD Instruction 5010.40. Management controls at the DFAS Denver Center were not adequate to ensure that all accounting adjustments were adequately supported and properly approved. The recommendation, if implemented, will improve the controls over the process for making accounting entries. We will provide a copy of the report to the senior official in charge of management controls at the DFAS Denver Center.

Adequacy of Management's Self-Evaluation. The DFAS Denver Center identified controls over the preparation of financial statements as an assessable unit, but did not identify controls over accounting entries as an assessable unit. The DFAS Denver Center evaluated the preparation of financial statements and controls over accounting entries. In its evaluations, the DFAS Denver Center did not identify material weaknesses related to controls over accounting entries identified by the audit, because their review was not sufficiently detailed to

identify those weaknesses. In its Annual Statement of Assurance, the DFAS Denver Center reported the material weakness related to not implementing the U.S. Standard General Ledger at the transaction level.

Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>. Inspector General, DoD, reports can be accessed on the Internet at <http://www.dodig.osd.mil>.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
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Deputy Chief Financial Officer
Director, Accounting Policy
Director, Defense Logistics Studies Information Exchange

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Auditor General, Department of the Army

Department of the Navy

Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
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Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Denver Center
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Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

F. Jay Lane
Salvatore D. Guli
Brian M. Flynn
Byron B. Harbert
Mark A. Ives
Lari Sue Hoogland
Susanne B. Allen